

**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**DECEMBER 31, 2016 AND 2015**

**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**TABLE OF CONTENTS**

**Independent Auditor's Report**

**Exhibit**

**A - Statement of Assets and Net Assets Arising from Cash Transactions**

**B - Statement of Revenues Collected, Expenses Paid and Changes  
in Net Assets Arising from Cash Transactions**

**Notes to Financial Statements**

## **Independent Auditor's Report**

**Board of Trustees  
The Carroll and Milton  
Petrie Foundation, Inc.**

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of The Carroll and Milton Petrie Foundation, Inc., which comprise the statement of assets and net assets arising from cash transactions as of December 31, 2016 and 2015, and the related statement of revenues collected, expenses paid and changes in net assets arising from cash transactions for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and net assets arising from cash transactions of The Carroll and Milton Petrie Foundation, Inc., as of December 31, 2016 and 2015, and its revenues collected and expenses paid and the increases in net assets arising from cash transactions for the years then ended on the basis of accounting described in Note 2.

### ***Basis of Accounting***

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Loeb & Troper LLP*

January 17, 2018

**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**STATEMENT OF ASSETS AND NET ASSETS  
ARISING FROM CASH TRANSACTIONS**

**DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Cash	\$ 2,717	\$ 6,713
Investments (Note 3)	<u>78,642,440</u>	<u>71,942,746</u>
Total assets	<u>\$ 78,645,157</u>	<u>\$ 71,949,459</u>
Net assets		
Unrestricted net assets arising from cash transactions (Exhibit B)	<u>\$ 78,645,157</u>	<u>\$ 71,949,459</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**STATEMENT OF REVENUES COLLECTED, EXPENSES PAID AND  
CHANGES IN NET ASSETS ARISING FROM CASH TRANSACTIONS**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Revenues collected		
Contributions	\$ 7,066,822	\$ 3,443,803
Donated stock (Note 8)	2,258,325	52,142,887
Interest income	95,240	129,057
Dividend income	1,320,437	989,021
Miscellaneous	39,031	10,708
	<u>10,779,855</u>	<u>56,715,476</u>
Expenses paid		
Grants	6,068,727	5,033,145
Investment fees	461,992	243,618
Salaries	131,667	104,167
Payroll taxes	9,448	8,200
Employee benefits	21,394	11,750
Pension expense (Note 5)	20,000	20,000
Dues and subscriptions	226	91
Accounting	35,680	7,900
Legal	54,016	40,035
Insurance	4,860	4,755
Office expense	368	180
Travel	304	577
Excise taxes	3,220	31,687
Other fees	7,255	5,162
	<u>6,819,157</u>	<u>5,511,267</u>
Excess of revenues collected over expenses paid before realized and unrealized gain (loss) on investments	3,960,698	51,204,209
Realized loss on sale of investments	(1,066,569)	(266,325)
Unrealized gain (loss) on investments	<u>3,801,569</u>	<u>(2,072,717)</u>
Increase in unrestricted net assets arising from cash transactions	6,695,698	48,865,167
Unrestricted net assets arising from cash transactions - beginning of year	<u>71,949,459</u>	<u>23,084,292</u>
Unrestricted net assets arising from cash transactions - end of year (Exhibit A)	<u>\$ 78,645,157</u>	<u>\$ 71,949,459</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 1 - NATURE OF ORGANIZATION**

The Carroll and Milton Petrie Foundation, Inc. (the “Corporation” or “Foundation”) is a corporation formed by the trustees of The Carroll and Milton Petrie Foundation on June 27, 2004. Its mission is to make grants in the greater New York Metropolitan Area for educational purposes. Grants are made solely to public charities within the meaning of Section 501(c)(3) and 509(a)(1) of the Internal Revenue Code of 1986. The Corporation’s primary sources of revenue are contributions and investment income.

The Corporation is a private foundation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, but is subject to excise taxes on investment earnings.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of accounting* - Revenues and expenses are recorded on the modified cash basis of accounting. Consequently, revenues and the related assets are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred except unrealized gains and losses on investments, which are recognized in the financial statements.

*Use of estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and equivalents* - Cash equivalents include certain investments in highly liquid investments with original maturities of three months or less.

*Investments* - Investments in securities are recorded at fair value.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets’ fluctuations, and that such changes could materially affect the amounts reported in the Foundation’s financial statements.

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**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Unrestricted net assets arising from cash transactions* - Unrestricted net assets arising from cash transactions include funds having no restriction as to use or purpose imposed by donors.

*Contributions* - Contributions are recorded at the date the contributions are collected. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the assets. When a donor restriction expires, that is, when a stipulated time restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions.

*Grants* - Grants are made pursuant to authorization of the Board of Directors.

*Reclassification* - U.S. government obligations were reclassified in 2015 from Level 1 investments to Level 2 investments within the fair value hierarchy table to conform with the current year presentation.

*Functional allocation of expenses* - The costs of providing the Corporation's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services that have benefited.

***Fair Value Measurements***

*Fair Value Measurements* establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Fair Value Measurements (continued)***

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016, as compared to those used at December 31, 2015.

***U.S. government obligations and corporate bonds*** - Valued at fair value by discounting the related cash flows based on current yield, of similar instances with comparable duration, considering the credit worthiness of the issue.

***Mutual funds and corporate stocks*** - Valued at the closing price reported on the active market on which the individual securities are traded.

***Limited partnerships*** - Investments in nonpublic companies are stated at fair value as determined by the General Partner in accordance with the terms of the Partnership Agreement. Generally, the General Partner will initially value these investments at cost and will adjust the values to reflect meaningful third-party transactions, a significant impairment in the financial condition or operating performance of an investment, or other pertinent developments that otherwise warrant a change in the valuation of an investment. Factors considered in valuing individual investments include, without limitation, available market prices, type of security, purchase price, purchases of the same or similar securities by other investors, marketability, restrictions on disposition, current financial position and operating results, and other pertinent information. The General Partner estimates the fair value of these investments. There are inherent limitations in any estimation technique. The fair value estimates presented herein are not necessarily indicative of amounts that might be ultimately realized, since such amounts depend on future circumstances, and the differences could be material. These investments are considered Level 3 investments on the fair value hierarchy.

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**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Fair Value Measurements (continued)***

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

See Note 3 for fair value hierarchy table.

***Donated stock*** - Donated stock are recorded at the fair market value at date of receipt.

***Uncertainty in income taxes*** - The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2013 and subsequent remain subject to examination by applicable taxing authorities.

***Subsequent events*** - Subsequent events have been evaluated through January 17, 2018, which is the date the financial statements were available to be issued.

**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 3 - INVESTMENTS**

The following table sets forth by level, within the fair value hierarchy (Note 2), the Foundation's investments at December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government obligations	\$ <u>-</u>	\$ <u>1,457,523</u>	\$ <u>-</u>	\$ <u>1,457,523</u>
Corporate bonds - domestic	<u>-</u>	<u>50,001</u>	<u>-</u>	<u>50,001</u>
Mutual funds				
Fixed income	<u>1,084,257</u>	<u>-</u>	<u>-</u>	<u>1,084,257</u>
Total mutual funds	<u>1,084,257</u>	<u>-</u>	<u>-</u>	<u>1,084,257</u>
Corporate stocks				
Convertible preferred	188,532	-	-	188,532
Telecommunications	800,700	-	-	800,700
Consumer discretionary	10,003,667	-	-	10,003,667
Consumer staples	5,422,972	-	-	5,422,972
Energy	6,932,229	-	-	6,932,229
Financials	10,149,761	-	-	10,149,761
Health care	8,134,266	-	-	8,134,266
Industrials	8,634,570	-	-	8,634,570
Information tech	13,909,049	-	-	13,909,049
Materials	1,887,948	-	-	1,887,948
Utilities	<u>1,194,600</u>	<u>-</u>	<u>-</u>	<u>1,194,600</u>
Total corporate stocks	<u>67,258,294</u>	<u>-</u>	<u>-</u>	<u>67,258,294</u>
Limited partnerships	<u>-</u>	<u>-</u>	<u>1,618,453</u>	<u>1,618,453</u>
Total investments reported on the fair value hierarchy	<u>\$ 68,342,551</u>	<u>\$ 1,507,524</u>	<u>\$ 1,618,453</u>	71,468,528
Cash and cash equivalents				<u>7,173,912</u>
Total investments				<u>\$ 78,642,440</u>

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**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 3 - INVESTMENTS (continued)**

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 investments for the year ended December 31, 2016:

Balance - beginning of year	\$ 1,371,783
Unrealized gains included in changes in net assets for the year ended December 31	165,875
Realized losses	(154,359)
Sales	(152,715)
Purchases	347,488
Interest	57,587
Dividend	11,511
Investment fees	<u>(28,717)</u>
Balance - end of year	<u>\$ 1,618,453</u>

The amount of total gains for the period included in changes in net assets attributable to the change in unrealized gains relating to assets still held at the reporting date	<u>\$ 165,875</u>
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***Fair value of investment that calculate net asset value***

The following table summarizes investments measured at fair value based on net asset value (NAV) per share as of December 31, 2016:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Limited partnership (a)	\$ 191,066	\$ -	None	90 days
Limited partnership (b)	142,859	505,925	None	None
Limited partnership (c)	<u>1,284,528</u>	<u>728,217</u>	June 30 or December 31	90 days
Total	<u>\$ 1,618,453</u>	<u>\$ 1,234,142</u>		

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**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 3 - INVESTMENTS (continued)**

- (a) *Limited partnership* - The limited partnership seeks to create equity interest in financially restructured prudently capitalized businesses by investing in the pre-restructuring debt instruments of these companies and becoming actively involved in the recapitalization process.
- (b) *Limited partnership* - The investment objective of the fund is to achieve capital appreciation primarily by acquiring interests in existing hedge funds (also “Investment Funds”) in secondary market transactions.
- (c) *Limited partnership* - The fund seeks to realize long-term growth of capital by investing in debt securities and other forms of indebtedness. The fund also invests in equity securities, including common and preferred stock. The fund will seek to realize long-term growth capital by investing in a portfolio of debt securities, other forms of indebtedness and common and preferred stock.

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**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 3 - INVESTMENTS (continued)**

The Foundation's investments at fair value are set forth by level as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. government obligations	\$ <u>-</u>	\$ <u>518,865</u>	\$ <u>-</u>	\$ <u>518,865</u>
Corporate bonds - domestic	<u>-</u>	<u>109,982</u>	<u>-</u>	<u>109,982</u>
Mutual funds				
Equity	102,953	-	-	102,953
Fixed income	<u>1,076,949</u>	<u>-</u>	<u>-</u>	<u>1,076,949</u>
Total mutual funds	<u>1,179,902</u>	<u>-</u>	<u>-</u>	<u>1,179,902</u>
Corporate stocks				
Convertible preferred	300,858	-	-	300,858
Consumer discretionary	9,999,705	-	-	9,999,705
Consumer staples	4,891,350	-	-	4,891,350
Energy	4,021,752	-	-	4,021,752
Financials	8,478,154	-	-	8,478,154
Health care	10,250,971	-	-	10,250,971
Industrials	7,315,886	-	-	7,315,886
Information tech	11,976,709	-	-	11,976,709
Materials	2,194,196	-	-	2,194,196
Utilities	<u>727,230</u>	<u>-</u>	<u>-</u>	<u>727,230</u>
Total corporate stocks	<u>60,156,811</u>	<u>-</u>	<u>-</u>	<u>60,156,811</u>
Limited partnerships	<u>-</u>	<u>-</u>	<u>1,371,783</u>	<u>1,371,783</u>
Total investments reported on the fair value hierarchy	<u>\$ 61,336,713</u>	<u>\$ 628,847</u>	<u>\$ 1,371,783</u>	63,337,343
Cash and cash equivalents				<u>8,605,403</u>
Total investments				<u>\$ 71,942,746</u>

The fair value hierarchy table for 2015 was reclassified to conform with the current year's presentation.

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**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 3 - INVESTMENTS (continued)**

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 investments for the year ended December 31, 2015:

Balance - beginning of year	\$ 1,451,949
Unrealized losses included in changes in net assets for the year ended December 31	(314,072)
Realized gains	74,307
Sales	(256,033)
Purchases	361,732
Interest	100,097
Investment fees	<u>(46,197)</u>
Balance - end of year	<u>\$ 1,371,783</u>

The amount of total losses for the period included in changes in net assets attributable to the change in unrealized losses relating to assets still held at the reporting date	<u>\$ (314,072)</u>
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	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Limited partnership (a)	\$ 302,194	\$ -	None	90 days
Limited partnership (b)	229,797	508,495	None	None
Limited partnership (c)	<u>839,792</u>	<u>1,073,135</u>	June 30 or December 31	90 days
Total	<u>\$ 1,371,783</u>	<u>\$ 1,581,630</u>		

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**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 3 - INVESTMENTS (continued)**

- (a) *Limited partnership* - The limited partnership seeks to create equity interest in financially restructured prudently capitalized businesses by investing in the pre-restructuring debt instruments of these companies and becoming actively involved in the recapitalization process.
- (b) *Limited partnership* - The investment objective of the fund is to achieve capital appreciation primarily by acquiring interests in existing hedge funds (also “Investment Funds”) in secondary market transactions.
- (c) *Limited partnership* - The fund seeks to realize long-term growth of capital by investing in debt securities and other forms of indebtedness. The fund also invests in equity securities, including common and preferred stock. The fund will seek to realize long-term growth capital by investing in a portfolio of debt securities, other forms of indebtedness and common and preferred stock.

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**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 4 - EXPENSES PAID**

	<b>2016</b>			<b>2015</b>		
	<b>Program</b>	<b>Management and General</b>	<b>Total</b>	<b>Program</b>	<b>Management and General</b>	<b>Total</b>
	<b>Educational and Grants</b>			<b>Educational and Grants</b>		
Expenses paid						
Grants	\$ 6,068,727		\$ 6,068,727	\$ 5,033,145		\$ 5,033,145
Investment fees		\$ 461,992	461,992		\$ 243,618	243,618
Salaries	111,917	19,750	131,667	88,542	15,625	104,167
Payroll taxes	8,031	1,417	9,448	6,970	1,230	8,200
Employee benefits	17,670	3,724	21,394	9,987	1,763	11,750
Pension expense (Note 5)	17,000	3,000	20,000	17,000	3,000	20,000
Dues and subscriptions	32	194	226	46	45	91
Accounting		35,680	35,680		7,900	7,900
Legal		54,016	54,016		40,035	40,035
Insurance	3,159	1,701	4,860	3,091	1,664	4,755
Office expense	237	131	368	116	64	180
Travel	198	106	304	375	202	577
Excise taxes		3,220	3,220		31,687	31,687
Other fees	<u>4,718</u>	<u>2,537</u>	<u>7,255</u>	<u>3,357</u>	<u>1,805</u>	<u>5,162</u>
Total expenses paid	<u>\$ 6,231,689</u>	<u>\$ 587,468</u>	<u>\$ 6,819,157</u>	<u>\$ 5,162,629</u>	<u>\$ 348,638</u>	<u>\$ 5,511,267</u>

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**THE CARROLL AND MILTON  
PETRIE FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 5 - PENSION**

The Corporation has a simplified employee pension (SEP), which is a type of retirement plan under which an employer makes contributions to individual retirement accounts (IRA) of employees. The expense for 2016 and 2015 was \$20,000 and \$20,000, respectively.

**NOTE 6 - COMMITMENTS**

The Corporation has made grant commitments which are due in future years.

	<u>2016</u>	<u>2015</u>
2017		\$ 5,462,031
2018	\$ 1,683,761	3,572,507
2019	<u>846,666</u>	<u>                    </u>
	<u>\$ 2,530,427</u>	<u>\$ 9,034,538</u>

**NOTE 7 - RELATED-PARTY TRANSACTIONS**

The Foundation uses a law firm that employs the President of the Foundation. Legal expenses for 2016 and 2015 related to these transactions were \$54,106 and \$40,035, respectively.

**NOTE 8 - CONCENTRATIONS**

In 2016 and 2015, the Foundation received stock donations totaling \$2,258,325 and \$52,142,887, respectively, from one donor.